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SUBJECT: LEBANON: ECONOMISTS LET DOWN BY MINISTERIAL POLICY
STATEMENT (ECONOMIC WEEK IN REVIEW, AUGUST 4 - 10, 2008)

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ECONOMISTS LET DOWN BY MINISTERIAL POLICY STATEMENT;
CABINET WILL MOSTLY FOCUS ON 2009 PARLIAMENTARY ELECTIONS

¶1. (SBU) Prominent financial economist Dr. Charbel Nahas told us on August 6 that the ministerial statement came "far below what it should have been." He said that "this cabinet has a unique opportunity as all the political parties are represented in the cabinet; thus actions can be quickly endorsed in parliament. Unfortunately, the statement did not list specific actions to be implemented to build on the momentum politically and institutionally," he remarked. The statement addressed social issues, such as health coverage and pension scheme very vaguely, although all political parties had unanimously agreed on these two major economic issues at the EU-hosted meeting in Beirut on April 21-22, 2008, he said. He also pointed out that the Statement should reflect the need to update the Paris III document to indicate what the GOL plans to do. The previous government took actions opposite to what it had pledged in the Paris III document, such as reinstating the wheat subsidy and subsidizing gas and gasoil prices, he noted.

¶2. (SBU) Economic consultant Dr. Louis Hobeika told us on August 6 that this cabinet is "mostly a cabinet to prepare for parliamentary elections." He believes that on the economic front, the cabinet will not be able to do more than pass the budget law, rationalize public spending, improve the supply of electricity, and take preliminary steps to liberalize economic sectors, such as abolish exclusive agencies. He said that social issues mentioned in the Ministerial Statement are mere repetitions of what appeared in

previous ministerial statements.

13. (SBU) Along the same lines, economic expert Dr. Elie Yachoui told us on August 8 that the economic part of the Ministerial Statement was similar to previous statements that focused on international conferences and privatization. He pointed out that the document did not mention reviewing all the macroeconomic policies. "This should precede any privatization so that the GOL would benefit from privatization to reduce the public debt over the long run," he stressed. He criticized the privatization of the cellular network, which is currently providing the Treasury with annual revenues of about \$800 million. He also rejected raising electricity tariffs, which are already high. Yachoui stressed that Lebanon "needs to reform its economic, financial, monetary, production, investment, and customs policies in order to double the size of the economy, reduce imports, and adopt incentives to encourage investment and increase production, projecting the trade deficit to reach \$11 billion this year."

EGYPT WILL SUPPLY LEBANON WITH
200 MEGAWATTS OF ELECTRICITY

14. (U) Minister of Energy and Water (MEW) Alain Tabourian indicated on August 4 after a meeting with his Egyptian counterpart Hassan Yunus that Egypt will supply Lebanon with 200 megawatts (MGW) of electricity; a meeting will be held at the end of the month to finalize details. However, Lebanon will continue to suffer from a 500 MGW shortage in power, Tabourian said. He also hoped that Lebanon will be able to import natural gas from Egypt in two months.

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S&P RAISES LEBANON'S LONG-TERM
SOVERIGN CREDIT RATING

15. (U) On August 5, Standard & Poor's (S&P) raised Lebanon's long-term sovereign credit rating from 'CCC+' to 'B-', following the Doha Conference in May 2008 and subsequent easing of political tensions. S&P stated that this reduces the risk that depositors will withdraw funds from the Lebanese banking sector, which in turn lessens the GOL's near-term financing risks as banks are the GOL's largest creditors. Meanwhile, Lebanon's short-term rating was affirmed at 'C', and the transfer and convertibility assessment was affirmed at 'B+.'

WTO MULTILATERAL NEGOTIATIONS MOVING FORWARD;
PROBLEMS REMAIN BILATERALLY

16. (SBU) Advisor to Minister of Economy and Trade (MOET) Lama Oueijan told us August 5 that the MOET held a video conference with USTR in June regarding multilateral negotiations, which helped clarify several issues, and is expected to finalize the Q&A round regarding Lebanon's multilateral trade regime.

17. (SBU) On the bilateral side, the goods and services offers were handled through an exchange of letters; the last letter sent by Lebanon to USTR was prior to Lebanon's Fifth Working Party meeting in May 2007, Oueijan said. On the services offers, Lebanon met 70 percent of the U.S. request, she said, but noted that Lebanon has received from USTR additional requests and is currently working to address them. She expects Lebanon's response on services offers to be sent to USTR by October 2008.

18. (SBU) As to the goods offers, 60 percent of the U.S. request was met, however, "the remaining 40 percent put a lot of pressure on industrialists and the agriculture sector, as well as strain the Treasury at a time when Lebanon is facing major debt restructuring problems," she said. Lebanon cannot drop its customs duties beyond the currently applied tariff rates on the 40 percent remaining goods, she remarked, while USTR is requesting zero tariffs.

MINISTRY OF HEALTH LAUNCHES CAMPAIGN

TO COMBAT COUNTERFEIT DRUGS

¶9. (SBU) On August 6, Minister of Public Health Mohammad Khalifeh launched the first national campaign to combat counterfeit drugs in collaboration with the World Health Organization (WHO), Lebanese Order of Pharmacists, World Federation of Order of Pharmacists of Francophone countries, and the Forum of Middle Eastern Pharmacists. The campaign includes radio and TV ads, as well as billboards and educational flyers. A research-based pharmaceutical company contact told us that they welcome the campaign, which mainly targets the general public, hospitals, and pharmacists. The contact told us that the organizers of this campaign have been in touch with pharmaceutical companies requesting funding for a long-term campaign on drug counterfeits since the current campaign is seen as the initial phase of a long-term campaign.

IPR TRAINEES REQUEST ASSISTANCE IN PREPARING TO JOIN MADRID PROTOCOL

¶10. (SBU) On August 5, Econstaff met with seven members of the Ministry of Economy and Trade's (MOET) IPR Unit who participated in a variety of USPTO IPR training programs since February 2008. They all expressed their appreciation to the USPTO and its interest in training them to improve their performance at the IPR Unit. Participants who attended programs focused on copyright, enforcement, and industrial design highly appreciated their respective programs, although most wished that more time was given to practical applications instead of the theoretical side of the issues.

¶11. (SBU) Meanwhile, Loubna Kodeih who participated in the Trademark Administration Program (March 25-28, 2008) was highly satisfied with the program, given that a lot of the Unit's work deals with trademarks, adding that the balance between theory and practice during the training was adequate. Kodeih made a pitch for USPTO assistance as Lebanon prepares to join the Patent Cooperation Treaty

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(PCT) and more so the Madrid Protocol. For properly implementing the Madrid Protocol, Lebanon is in great need of training, as well as assistance for e-filing and in scanning all its archives.

LEBANON AND IRAN SIGN GRANT AGREEMENT TO REHABILITATE SOUTHERN ROAD

¶12. (U) On August 6, President of the Council for Development and Reconstruction (CDR) Nabil Jisr and head of the Iranian Committee for the reconstruction of Lebanon Hussam Khouchnoyess signed in the presence of Iranian Ambassador to Lebanon Mohamad Rida Shibani a grant agreement for the rehabilitation of the Naqura-Marjeyoun road. Shibani said that "Iran's assistance is part of efforts to remove the impact of the July 2006 war against Lebanon," and noted that "Iran did not set a ceiling for such assistance and contribution," stressing that "Iran's position on this is strategic." He also expressed Iran's readiness to "strengthen bilateral cooperation politically, economically, socially and culturally." Shibani thanked the CDR and the previous Siniora Cabinet for their "cooperation facilitating Iranian reconstruction efforts, and expecting such cooperation to continue with the current government."

CENTRAL BANK GOVERNOR PROJECTS FIVE PERCENT GROWTH IN 2008

¶13. (U) On August 4, Central Bank of Lebanon (CBL) Governor Riad Salameh projected a five percent real growth in 2008 as a result of confidence and optimism in the markets, with inflation to range between ten to 13 percent. Dollarization of deposits fell from 79 percent a year ago to 74 percent today, he said. Also, Salameh reportedly said that the environment was favorable to move ahead with listing 25 percent of national passenger carrier MEA shares, of which 99 percent is held by the CBL, on the Beirut Stock Exchange.

WORLD BANK: COST OF ENVIRONMENT DEGRADATION FOLLOWING THE
JULY 2006 WAR AROUND \$729 MILLION

¶14. (U) According to the World Bank, the overall cost of environment degradation in Lebanon caused by the July 2006 war is estimated between \$537 million and \$831 million, for an average of \$729 million or 3.6 percent of GDP. The waste sector suffered the most damage, estimated between \$207 million and \$374 million due to the high costs of disposing demolition waste and to casualties and losses in agriculture production caused by unexploded ordnances. This was followed by losses due to damages from the oil spills (between \$166 - \$240 million), impact on water supply and repairing water infrastructure (\$131 million), landscape damages caused by quarries and non-rehabilitation of quarries (between \$15.4 - \$176 million), and damages to forests (between \$7 - \$11 million).

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